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North Yorkshire Pension Fund

Report to the Audit Committee on the 2011/12 Local Government Pension Fund Audit

Final Report

September 2012

Audit Committee
North Yorkshire County Council
County Hall
Northallerton
DL7 8AD

14 September 2012

Dear Sirs

We have pleasure in setting out in this document our report on the North Yorkshire Pension Fund to the Audit Committee of the North Yorkshire County Council for the year ended 31 March 2012, for discussion at the meeting scheduled for 27 September 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The matters arising during our audit, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- Work is continuing on some aspects of underlying audit work, the most notable is the review of events after the end of the reporting period. We will be in attendance at the Audit Committee meeting on 27 September 2012 and will present an update to our final report on our audit at that time.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable and issue an unmodified audit report.

We would like to take this opportunity to thank the Pension team for their assistance and co-operation during the course of our audit work.

C. D. Powell

Chris Powell

Engagement Lead

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Executive Summary

We have pleasure in setting out in this document our report to the Audit Committee of North Yorkshire County Council on our audit of North Yorkshire Pension Fund for the year ended 31 March 2012 for discussion at the meeting scheduled for 27 September 2012.

This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2012. The main audit visit took place during July and we are happy with the way that the audit has progressed. Audit working papers were of a good standard. We would like to thank those officers involved in the audit.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

	Description
Demise of the Audit Commission	We have previously reported to you that the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission in 2012/13. On 2 June the Audit Commission announced proposals that the audits currently undertaken by their in-house practice should be outsourced to the private sector for the year ended 31 March 2013 onwards and five-year contracts have been awarded to that effect. Following a consultation exercise with all audited bodies about the appointment of their auditor for the audit of the 2012/13 and future year's accounts, the Commission has recently written to the Chief Executive confirming Deloitte as the appointed auditor for the Authority. The Commission will continue to regulate the local public audit market, monitor the performance of the firms providing audit services and determine the scale audit fees until the Government implements a new local public audit regime.
Key findings on audit risks	We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2011/12 accounts, and which were presented to the Audit Committee on 28 June 2012 as follows: 1. **Contributions**: contribution income from the Scheduled and Admitted bodies has been received in accordance with the Schedule of Contributions; 2. **Benefits**: benefits have been paid in accordance with the Pension Increases Act and the wishes of pension fund members; 3. **Investments**: based on the investments manager confirmation received to date investments are appropriately valued within the annual report; 4. **Management Override of Controls**: we have not identified any management override of control; and 5. **Revenue recognition**: work performed in the current year has not indicated that the rebuttal of revenue recognition risk is inappropriate.

Executive Summary (continued)

Audit status	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our Audit Plan. We have substantially completed our audit in accordance with our Audit Plan which was presented to you on 28 June 2012 subject to the satisfactory completion of the matters set out below: • completion of internal quality control procedures; • update on events after the end of the reporting period; and • receipt of signed management representation letter. We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Fund that would result in the issuance of a modified audit opinion.

Identified misstatements	Audit materiality was calculated as £12.8m (2010/11: £14.0m). As set out in our planning report we report all unadjusted misstatements greater than 2% of materiality, £256,000 (2010/11: £280,000) to the Audit Committee. There are no uncorrected misstatements above the 2% reporting level. There are no qualitatively material misstatements that we wish to bring to your attention.

Accounting policies and financial reporting	As part of our audit, we consider the quality and acceptability of the Fund's accounting policies and financial reporting. The Statements of Accounts have to be prepared under an International Financial Reporting Standards ("IFRS") - based Code of Practice on Local Authority Accounting for the first time in 2011/12. The draft financial statements presented for audit did meet most of the disclosure requirements of the IFRS Code 2011/12. To improve compliance with the Code we recommended a number of additional disclosures. Officers Amended the draft financial statements there are no remaining areas of non-compliance that we need to bring to your attention.

Executive Summary (continued)

Accounting and internal control systems	As part of our audit we consider the quality and robustness of the Fund's internal control environment. We have not identified any significant internal control weaknesses during the course of our work. We have identified two area where there is the potential for improvement in existing controls to ensure compliance with applicable laws and regulations.

Laws and regulations	From 1 April 2011 the Local Government Pension Scheme (Management and Investment of Funds) Regulations require that all scheme fund are maintained in a separate bank account, even when Fund cash pools with the local authority. It is noted that whilst the Fund maintains a separate bank account in to which contributions are received, once the cash is then pooled with North Yorkshire County Council the cash it is no longer held separately. This has been discussed with Officers who have noted that they are aware of the non-compliance with the regulations. Officers consider that the risk to the Fund is limited due to the treasury management policies in place at North Yorkshire County Council for selecting counter-parties. The pooling with the Authority then provides better economies of scale, greater return and greater flexibility in the period of investments that would be available to the Fund acting on its own. This is discussed further in Section 2.

Current accounting and regulatory issues	We have included within this report current accounting and regulatory issues that affect the pension fund industry, particularly focus areas of the Pensions Regulator (TPR). Although the North Yorkshire Pension Fund is not regulated by TPR these are guidelines for improving process and for best practice in the industry.

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Contributions	
Audit risk	Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, this remains a material income stream and in view of the complexity arising from the participation of different employers within the Fund, the fact that members pay a tiered contribution rate depending on their pensionable pay and that additional complexities were introduced to the employer contribution rates from 1 April 2011, we have included the calculation and payment of contributions as an area of significant risk. In addition you have asked us to consider whether contributions have been paid in accordance with the schedule of contributions and received within 19 days in accordance with best practice.
Deloitte response	We have performed the following testing to address the significant risks around contributions: • reviewed the design and implementation of controls present at the Fund for ensuring contributions from the Administering Authority and all Scheduled and Admitted bodies are identified and calculated correctly; • performed tests of details to test whether each material income stream was calculated in accordance with the Local Government Pension Fund regulations; • selected a sample of members from the Administering, Scheduled and Admitted bodies and reviewed breakdowns by individual of pensionable pay, employee and employer contributions. On a sample basis we agreed this information to individual payslips and reviewed whether the contributions tested were calculated correctly in all material respects; and • developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year. We considered whether contributions were received within 19 days in accordance with best practice. From the sample testing undertaken we did not identify any non-compliance with best practice. We note that North Yorkshire County Council as the Administering Authority is not responsible for the calculation of contributions. We have therefore performed our testing, where necessary, with the assistance of the Scheduled and Admitted bodies. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Benefits	
Audit risk	Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008. The calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Also individuals enjoy greater flexibility in their choice of the mix of pensions and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Some employers may not have retained the necessary records to enable these calculations to be undertaken by the Fund. The Government has completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations.
Deloitte response	The following tests were performed to address the significant risk around benefits: • we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review; • we obtained, from officers, a schedule of benefits paid and supporting calculations and tested whether benefits paid were in accordance with the appropriate rules; • we performed tests of detail, on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, fund rules and benefit choices made; • we developed an expectation based on changes in membership numbers and Pension Increases Act to analytically review the benefits paid in the year; and • we considered on a sample basis whether any changes in benefit rates were applied on a timely basis and correctly calculated. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Investments	
Audit risk	The Pension Fund invests in derivative financial instruments. These investments are more complex to measure, account and disclose correctly. Accordingly we have treated the appropriateness of the accounting and disclosure of these investments as a specific risk. There was also a change in the emphasis of the CIPFA code for local authorities in 2011/12 which means that the fund needs to comply with section 7 of the LG Code 2011/12. In the CIPFA 2011/12 code of practice on Local Authority Accounting (2011/12), CIPFA has specified that a new section on risks arising from financial instruments should be included in the LGPS accounts. In particular, the Guidance Notes for Practitioners (2011/12) sets out the minimum requirements for disclosure of each of the following risks: • Market risk (sub-divided into currency risk, interest rate risk and other price risk) • Credit risk • Liquidity risk Qualitative and quantitative disclosures are required for each of the three risk categories. There is a risk that this isn't disclosed correctly.
Deloitte response	The following tests were performed to address the significant risk around investments: • we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly; • we have assessed the competence and independence of the valuers used by the Fund; • we have understood the rationale for the use of derivative financial instruments. The Fund's use of derivatives is limited to simple forward foreign exchange contracts to match against the risk of holding overseas investments. Upon receipt of the draft financial statement we noted that there were no material derivative financial instruments; • we have reconciled the total value of the investments held by the Fund as reported in the investment report from Bank of New York Mellon to the value of investments reported in the Net Assets Statement. The net assets of the Fund reported in the financial statements are based on the custodian valuation of the investments. Based on the testing undertaken to date of preparation of this report the difference between the valuations per the custodian and the valuation from the investment managers in the current year is circa £325,000; • we have performed testing on a sample basis of quoted investment and compared the value reported by the Bank of New York Mellon to the quoted price obtained from Bloomberg, DataStream or other third party sources; and • we have reviewed the new disclosure notes and agreed these to supporting documentation in relation to market, credit and liquidity risk produced from third party information supplied by the Fund's advisers. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Management override of controls	
Audit risk	We are required by ISA 240 'The auditor's responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control.
Deloitte response	We have addressed the deemed risk of management override as follows: • we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements; • we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale; • we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings; • we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and • we have made enquiries of those charged with governance as part of our planning and detailed audit processes. All testing was completed with satisfactory results.

Revenue recognition	
Audit risk	We are required by ISA 240 'The auditor's responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of fraud in revenue recognition and conduct our audit testing accordingly, unless the presumption is rebutted.
Deloitte response	We have considered the risk of fraud in revenue recognition in respect of the Fund and no significant risks have been identified. Revenue in respect of a pension fund related to contributions income and we have concluded that there is no incentive to misstated contributions on this Fund. We are satisfied that the work performed in the current year has not indicated that the rebuttal of the revenue recognition risk is inappropriate.

2. Control recommendations

This section of the report summarises the key control recommendations that we have raised during the audit, together with management's responses.

We have not identified any significant control weaknesses from our audit in the current year however we have noted two area of potential improvement to the control environment:

Journal authorisation	
Background	Where journals are entered by Oracle super-users they can be input and authorised by the same person. Journals entered by other Oracle users are not authorised by more senior members of the finance team. In September 2012 Officers have undertaken a review of the number of users that have access to input or authorise journals within Oracle. Officers have also determined the number of super-users as super-users can prepare and authorise their own journals. Within the North Yorkshire Pension Fund there are 1 individual who can input journals into Oracle and 3 Oracle super-users.
Recommendation	A report should be developed so that management can obtain and review a report of the journals input by super-users on a regular basis.
Management response	The activity of the team responsible for preparing and posting journals for NYPF is separated from the rest of NYCC. Four individuals are authorised to prepare and post journals, three of whom are super users; other staff do not have access to the Fund's chart of accounts. This is considered the minimum number to ensure sufficient cover arrangements are in place at all times. In the significant majority of cases journals are prepared and posted by separate individuals but in relation to certain low risk issues this is not always the case. However with immediate effect the segregation of these duties will be applied to all journals.

Cash pooling with North Yorkshire County Council	
Background	From 1 April 2011 the Local Government Pension Scheme (Management and Investment of Funds) Regulations required that all scheme funds are maintained in a separate bank account, even when fund is cash pooled with the local authority. These regulations will enable the assets of the Fund to be clearly ring-fenced from other monies of the local authority, and this reflects a long standing Audit Commission view on best practice. It is noted that whilst the Fund maintains a separate bank account in to which contributions are received once the cash is then pooled for investment purpsoes with North Yorkshire County Council it is no longer held separately.
Recommendation	From our work with other local government pension funds we note that other local authorities designate one of the local authority accounts as a 'B account' and include the name of the pension fund when setting up the account with the bank. This account is then solely used for the purpose of cash pooling between the Authority and the Fund.
Management response	Regulation 6 does require separate bank accounts but doesn't prevent a commercial agreement to aggregate cash and get the benefit of economies of scale with the deposit taking bank. The approach we take, including having an SLA in place between NYCC/NYPF is to address the risk to the Fund and it complies with the spirit of the regulations.

Areas of potential improvement in the control environment identified in the prior year have been followed up with management and are attached at Appendix 3.

3. Accounting policies and financial reporting

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

We note that the Fund has continued to produce good quality working papers for audit. We would like to take this opportunity to thank the Corporate Director – Finance and Central Services and his team for their assistance during the process.

Our comments on the quality and acceptability of the Fund's accounting policies and financial reporting are discussed below.

Accounting policies

The 2011/12 accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards.

Accounting policies have been included in respect of cash and cash equivalent, taxation and financial instruments which reflects the change in emphasis on the applicability of the whole Code of Practice in the preparation of pension fund accounts. There are no matters to bring to your attention from our review of these accounting policies.

Financial reporting

There are no matters that we would like to bring to your attention from our review of the financial statements.

4. Current Accounting and Regulatory Issues

Upcoming financial reporting developments

For reference, the following general guidance and Pensions Regulator guidance may impact the governance arrangements and financial statements of the North Yorkshire Pension Fund.

Whilst we appreciate that Local Government Pension Fund are not regulated by the Pensions Regulator we consider their guidance to be indicative of what is currently considered to be best practice in the pensions sector.

The new LGPS 2014 project	
	On 22 December an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Fund (LGPF) in England and Wales was accepted by the Government. The agreement consists of: • A set of principles covering: - The design of a new LGPF. - The future management and cost of the fund. - Governance of the LGPF. • A timetable for implementing the new fund by April 2014. • A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new fund. During April 2012, following the acceptance by Government of a principles document submitted by the Local Government Association, UNISON and GMB on how to take forward the reform of the Local Government Pension Fund (LGPF) in England and Wales, a project has been set up to reach agreement on the elements of the new fund together with the management and governance of the fund going forward. Further information is available at: http://www.lgps.org.uk/lge/core/page.do?pageId=15431012

4. Current accounting and regulatory issues (continued)

Pension Schemes and VAT

Despite VAT's establishment as a common, harmonised tax system, there is currently no uniformity across the EU for pension fund management. EU VAT law allows Member States to define a list of "Special Investment Funds" or "SIFS" which can be exempt from VAT. Some Member States treat all pension fund management as taxable (on the basis that pension funds are not SIFS), some as all exempt (as SIFS), with a whole spectrum of positions in between. The UK treats pension fund management as a fully taxable service which is subject to VAT at the standard rate (currently 20%). As a result of this, the majority of pension funds have been incurring significant irrecoverable VAT costs on pension fund management. There are currently two cases reviewing the VAT liability of pension fund management, these are:

- ***Wheels***, which looks to challenge whether the UK is lawful in excluding occupational defined benefit schemes from the VAT exemption. Questions have been referred to the CJEU which should provide clarification around the VAT liability of this service.
- ***Fiscale***, is looking to make a wider challenge by questioning whether the management of all pension funds would come within the VAT exemption of SIF management. Questions have not yet been referred to CJEU. However, we expect this to happen shortly.

Where these cases are successful and it is deemed that VAT should never have been charged on pension fund management fees there will be an opportunity for pension funds to recover this VAT which has been overpaid from their investment managers. Therefore, the key point is for a pension funds to ensure it has protected its position by engaging in discussions with its various pension fund managers (as the VAT claim lies with the pension fund manager as the entity that charged VAT and paid this to HMRC). The pension fund needs to check to ensure its pension fund manager has submitted a claim, and continues to submit claims, which covers all relevant periods.

To date, as UK VAT law caps VAT claims to **just four years**, pension funds have been requesting their pension fund managers to submit claims as soon as possible to stop any earlier periods from "falling out of time". However, following the recent CJEU case of *Banca Antoniana*, there could potentially be scope for pension funds to request repayment of overpaid VAT for periods beyond the four year cap, and that the pension fund manager can claim this cost from HMRC to the extent it is not covered by the UK's capped period. However, HMRC have not yet confirmed how they will implement this judgement into UK VAT law and so it is advised that pension funds continue to engage in discussions with its pension fund managers to submit claims.

5. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this. There are no relationships (including the provision of non-audit services) we have with the North Yorkshire County Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

Non-audit services	We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the Administering Authority's policy for the supply of non-audit services or of any apparent breach of that policy. An analysis of professional fees earned by Deloitte LLP in the period from 1 April 2011 to 31 March 2012 will be provided to the Audit Committee in due course by the North Yorkshire County Council audit team in their report to the Audit Committee. Fees payable to the auditor's for the audit of the annual accounts of the North Yorkshire Pension Fund (excluding VAT) were £40,695 (2010/11 £37,858). Our fee is consistent with the scale fee determined by the Audit Commission.

International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Liaison with internal audit	The audit team, following an assessment of the independence and competence of the internal auditor, reviewed the findings of internal audits to inform the risk assessment and considered the impact on our audit approach. No adjustments were made to the audit approach as a result of our review of the work of internal audit.

Written representations	A copy of the representation letter to be signed on behalf of the Authority is attached at Appendix 1.

6. Responsibility statement

The Audit Commission published a ‘Statement of responsibilities of auditors and of audited bodies’ alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Council by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Pension Fund’s system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditor’s report.

We view this report as part of our service to you for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP

Deloitte LLP

Chartered Accountants
Leeds
14 September 2012

Appendix 1: Draft representation letter

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Our Ref: CDP/AJL/NYPF2012 ***September 2012***

Dear Sirs

North Yorkshire Pension Fund (the "Fund")
2011/12 Audit – Representation Letter

This representation letter is provided in connection with your audit of the Fund's financial statements for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the period from 1 April 2011 to 31 March 2012 and of amount and disposition at the end of the Fund period of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

We acknowledge as members of North Yorkshire County Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.

2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
   (i). management;
   (ii). employees who have significant roles in internal control; or
   (iii). others where the fraud could have a material effect on the financial statements.

Appendix 2: Draft representation letter (continued)

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.

   We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Schemes (revised May 2007) ("Pensions SORP 2007"), Code of Audit Practice on Local Authority Accounting in the United Kingdom in 2011/12: based on International Financial Reporting Standards or other regulations.

9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

10. We confirm the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Fund should change.

11. You have been informed of all changes to the Fund rules during the year and up to the current date.

12. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

13. No claims in connection with litigation have been or are expected to be received.

14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

15. Other than those described in the financial statements there have been no events subsequent to 31 March 2012 which require adjustment of or disclosure in the financial statements or notes thereto.

16. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

Appendix 2: Draft representation letter (continued)

17. The Pension Fund accounts and related notes are free from material misstatements, including omissions.

18. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

19. The Fund has satisfactory title to all assets.

20. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

21. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.

22. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2012 is complete, accurate and consistent with the information that is contained within the Accounts.

25. We confirm that:

    - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
    - all settlements and curtailments have been identified and properly accounted for;
    - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
    - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
    - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
    - the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council

Appendix 2: Draft Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of North Yorkshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director – Finance and Central Service and auditor

As explained more fully in the Statement of the Corporate Director – Finance and Central Services Responsibilities, the Corporate Director – Finance and Central Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director – Finance and Central Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Appendix 2: Draft Opinion (continued)

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Christopher Powell FCA (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
Leeds, UK
Date

Appendix 3: Update on prior year internal control observations

We reviewed management's implementation of recommendations made in our prior year Management Letter. We have summarised the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls.

No.	Recommendation	Management's Implementation
1	Late receipt of contributions: As the Fund maintains a net cash inflow, Officers should monitor the late payments to ensure that sale of investments will not be required. Officers should consider reinstating penalties for persistent late payment. Whilst this policy should be applied to all participating employers, Officers may what to focus on applying the fines on participating employers where the level of contributions received is significant to the Fund.	After a period of intensive communication with the Fund's employer organisations to encourage timely payments of pension fund contributions, all instances of late payment are being accompanied by a penalty. Status: Closed
2	Invoicing for the cost of the strain on the fund: A comparison should be made between the invoice value and the calculation prior to the invoice being sent to the employers who participate in the fund.	A procedure is in place to verify costs payable by employer organisations before invoices are raised. Status: Closed
3	Investment confirmation: Where a significant differences is noted between the custodian's report and the investment manager reports these differences should be reported to Pension Fund Panel so they can understand the reason for the difference and how it has been resolved. The impact on performance information reported to members should be quantified to enable Pension Fund Panel to fulfil their role as those charged with governance of the Fund.	Differences in valuations occasionally arise, usually due to different sources for pricing being used by the custodian and the manager. These differences are usually not significant but where they are, the differences are investigated and resolved prior to being reported to the Pension Fund Committee. Status: Closed
4	Preparation of the financial statement: Due to the specialist nature of Fund operations compared to the rest of the Council it is recommended that Officers should ensure as far as possible that the same staff are available to perform the reconciliation of Fund each year. Detailed guidance notes and investment report mapping should be prepared to ensure that going forward there is consistency in reporting of results of the Fund.	There have been no staff changes during the year, and existing system notes are being continually updated Status: Closed

Appendix 3: Update on prior year internal control observations (continued)

No.	Recommendation	Management's Implementation
5	Investment manager fees: An estimate of the performance fees due should be undertaken at each year end and, if significant, provided for.	Estimated performance fees are now accrued for at each year end. Status: Closed
6	Membership data: An explicit statement should be made in the accounts as to the date the membership data extract relates to. If membership data has moved significantly the accounts should be updated for the most recent data available.	The Annual Report will include mention of the date on which data was extracted, and if materially different will be updated. Status: Closed
7	Employee contributions: The Fund should seek either an annual assurance or assurance on a monthly basis on the contribution return from the participating employers that deductions are being made at the appropriate rate for each member as the Fund is unable to perform this testing centrally.	Schedules detailing pension fund contributions received from employers include explicit confirmation of the rates used. Status: Closed
8	Compliance with the Statement of Investment Principles: Officers should ensure assets allocations are in line with the Statement of Investment Principles (SIP) which has been approved by members. As the Fund is currently changing two of its investment managers the Fund should ensure that this process is concluded as quickly as possible to avoid undue risk to the Fund which may arise due to the current concentration of investment.	Asset allocations described by the SIP are adhered to except during a transitional period of movements between asset classes. In such cases the circumstances are fully explained to the Pension Fund Committee to update on the progress of the staged transition that they have previously approved. Status: Closed